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To:

Mr. Benon Sevan, Executive Director

Office of the Iraq Programme

From:

Esther Stern, Director

Internal Audit Division, OIOS

Subject:

OIOS Audit No. AF2003/22/1: Review of the Programme Analysis, Monitoring

and Support Division of the Office of the Iraq Programme

- 1. I am pleased to present herewith our final report on the audit of the Programme Analysis, Monitoring and Support Division (PAMSD) of the Office of the Iraq Programme and related field monitoring, coordination and policy formulation issues. The audit was conducted in New York between February and May 2003. The report is being issued in final form without a draft report as requested by you.
- 3. When commenting on the audit recommendations, please indicate whether you accept the recommendations, and provide a time schedule for the implementation of each accepted recommendation. Also please note that OIOS considers recommendations 3, 4, 5, 8 and 9 to be of critical importance and we would like to direct your attention, in particular, to these recommendations.
- 4. I would appreciate receiving your reply by 29 August 2003.
- 5. Thank you for the assistance and cooperation provided to the auditors on this assignment.

Copy to:

L. Fréchette, Deputy Secretary-General

C. Elfverson, Director, PAMSD

Board of Auditors

Programme Officer, OIOS

D. Knutsen



United Nations OFFICE OF INTERNAL OVERSIGHT SERVICES Internal Audit Division



Audit subject:

Review of Programme Analysis, Monitoring and Support

Division of the Office of the Iraq Programme

Audit No.:

AF2003/22/1

Report date:

28 July 2003

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EXECUTIVE SUMMARY

Audit of the Programme Analysis, Monitoring, and Support Division of the Office of the Iraq Programme (AF2003/22/1)

Between February and May 2003, OIOS conducted an audit of the Programme Analysis, Monitoring and Support Division (PAMSD) of the Office of the Iraq Programme (OIP) as well as related field monitoring, coordination and policy formulation issues. The focus of the audit was on assessing the efficiency and effectiveness of PAMSD's operations. The audit also examined certain issues concerning programme implementation, although PAMSD may not have been directly responsible for these matters. The findings and recommendations relate mainly to the Iraq preconflict period and should serve as lessons learned for any future role the Organization may have in similar situations.

Within the constraints of a complex and politically sensitive Programme, the PAMSD has made substantial efforts to discharge its responsibilities including provision of policy advice to the OIP Executive Director on a number of critical issues concerning the Oil-for-Food Programme. In OIOS' view, despite major constraints on its ability to fulfil its obligations, PAMSD has efficiently carried out its role. OIOS found that as a result of these constraints a number of policy decisions, which were consistent with OIP's role to coordinate and monitor activities, particularly in northern Iraq, had in many instances not been finalized, approved or implemented. In OIOS' view, PAMSD's role to provide policy advise on various issues, to monitor of field operations, and to advise the Executive Director have increasingly been marginalized.

In OIOS' view, major high-risk areas identified have had a significant impact on operations and the use of resources, as discussed below. Appropriate procedures and internal controls had not been established to reduce or eliminate these risks.

- The lack of an approved work plan, organizational structure and key performance indicators to assess PAMSD's performance, as well as inadequate communication between PAMSD, the Executive Director's office and UNOHCI resulted in the Division not being able to completely fulfil its functions or adequately support field operations. This had resulted in policy decisions being made that neither reflected the role of the Division, nor the professional advice that PAMSD had given. While the Programme is coming to an end, specific issues that should have been resolved include:
 - Strengthening communication between the Executive Director, UNOHCI and PAMSD;
 - Formally approving PAMSD's work plans;
 - Approving the restructuring of PAMSD, as a result of the revised functions which were assigned to the Division in January 2003 by the Executive Director; and
 - Clarifying reporting lines and coordination between PAMSD, UNOHCI and the Executive Director to enable PAMSD to effectively discharge its responsibilities.

- Significant studies undertaken and operational guidelines developed by PAMSD were not followed or implemented in a timely manner resulting, at times, in an uncoordinated approach to project implementation in the three northern governorates. Such measures would have strengthened field operations in terms of efficiency and effectiveness of resource utilization, *inter-alia* as follows:
 - Requirements for insurance of assets procured under the 13 and 2.2 per cent accounts needed to be determined;
 - The development of procedures to manage the ESC (the 13 per cent) account had been under development since late 2001, however the procedures had not been finalized and shared with the UN agencies; and
 - Guidelines to manage "Locally Generated Funds" (LGF) were only finalized in January 2003 despite major financial implications. For example, FAO alone received approximately \$21 million from LGF of which \$14.6 million had already been spent.
- The implementation of major studies and operational guidelines, which could have served to strengthen field operations in Northern Iraq was not done in a timely manner resulting in delayed project outputs, disparate policies among UN agencies implementing the Programme and a risk to the reputation of the Organization. For example:
 - Even though PAMSD had tried to field a "construction capacity" mission, as
 previously recommended by OIOS, to independently assess the construction
 capacity of local contractors and Agencies in Northern Iraq the mission was not
 undertaken;
 - Despite PAMSD recommendations, staff entitlements among UN agencies were never harmonized and remained under consideration by UNOHCI; and
 - The Memorandum of Understanding between OIP and UNICEF has allowed for transferring the title of assets valued at approximately \$99 million procured under the 13 per cent account to the Local Authorities contrary to relevant Security Council Resolutions and the MOU with the Government of Iraq.
- The contingency plans prepared by PAMSD, outlining the various possible scenarios and actions required to protect the interest of the Organization, were not in the nature of detailed liquidation plans, incorporating procedures on disposal of assets, transfer of Programme ouputs, etc., exposing the Programme to the risk of financial losses and inefficient winding down of operations.

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I. INTRODUCTION

- 1. Between February and May 2003, OIOS conducted an audit of OIP's Programme Analysis, Monitoring and Support Division (PAMSD) and related field monitoring, coordination and policy formulation issues. PAMSD's role is to support the Oil-for-Food Programme (OIP) Executive Director by maintaining a comprehensive overview of the effectiveness and standing of the Programme as a whole and articulating the Organization's viewpoint on how it discharges its responsibilities to the Security Council.
- 2. OIP works within the framework established by the Security Council, and is subject to the constraints of a complex and politically sensitive Programme. However, in OIOS' opinion, within this context, OIP has wide latitude to implement Programme policies and procedures in order to ensure it operates in an efficient and effective manner. PAMSD has made substantial efforts to discharge its responsibilities as policy advisors to the OIP Executive Director on a number of critical issues concerning the Programme.
- 3. Until January 2003, the division was composed of two sections: (a) the Observation and Analysis Section (OAS) and (b) the Operations Support Section (OSS). In addition to the responsibilities outlined above, PAMSD's core functions were to (i) provide direction to the Humanitarian Coordinator in Iraq (HC) with respect to observing the distribution of humanitarian supplies purchased under the Programme; and (ii) provide direction and support to the Programme in the three northern governorates of Erbil, Sulaymaniyah and Dahuk.
- 4. The OAS provided direction to the office of the HC in Iraq in managing observation activities of the distribution of humanitarian supplies purchased under the Programme. This headquarters review function was an integral part of the observation mechanism and ensured that all reporting for submission to senior management and the Security Council had been considered from a Programme-wide perspective.
- 5. The OSS performed qualitative and quantitative oversight of the humanitarian Programme and provided support for the implementation of the inter-agency humanitarian Programme in the three northern governorates of Iraq. Based on the information provided by UNOHCI and other UN agencies, it evaluated Programme implementation and provided policy direction to ensure that resources were used for maximum benefit of the population.
- 6. An exit conference was held with PAMSD on 28 May 2003. Their comments have been reflected in the report as appropriate and are shown in italics.

II. AUDIT OBJECTIVES

- 7. The major objectives of the audit were to:
 - (i) Assess the procedures used by PAMSD to monitor field operations under SCR 986 in Iraq;

- (ii) Assess the adequacy, effectiveness and efficiency of support and policy directives being provided by PAMSD to field operations under SCR 986 in Iraq;
- (iii) Determine if the organizational structure and management arrangements were adequate to provide the required support to field operations; and
- (iv) Review contingency planning and policies to ascertain whether adequate asset management policies and procedures were in place, and if ongoing contracts contained provisions to ensure that the UN was not exposed to undue and major liability in the liquidation of Programme activities.

III. AUDIT SCOPE

8. The audit involved an assessment of policies and procedures and an analysis of the guidelines established by PAMSD for: (i) the observation mechanism, (ii) support to UNOHCI and other UN agencies in the field mainly for Programme implementation in the three northern governorates, and focused on contingency planning in terms of asset management policies, including disposal and safeguarding of UN interests in ongoing contracts, and (iii) the adequacy and quality of advice given to the Executive Director. We also reviewed reports and systems established to monitor project activities in Iraq at the PAMSD level. The audit was conducted at headquarters in New York in accordance with the standards for the professional practice of internal auditing in United Nations organizations, and involved interviewing the PAMSD Director and other key officials and staff, issuing questionnaires, and examining pertinent documents and reports. The audit focused on reviewing PAMSD operations mainly in the pre-conflict period, and from the viewpoint of examining lessons that can be learned for similar future operations.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Organizational and management issues

9. We reviewed PAMSD's organizational and management arrangements and found that weaknesses in the current organization structure of the Programme had precluded the Division from effectively discharging its role as policy advisors to the Executive Director. Furthermore, a detailed liquidation plan to bring the Programme to an orderly closure had not been developed.

PAMSD work plans not approved

10. PAMSD work plans for the last three years had been submitted to the Executive Director for review and approval. However, they had not been formally approved nor were comments provided to PAMSD. In OIOS' view, an approved work plan not only serves as a guide to the staff, but also serves as a performance-management tool, and clarifies the Division's goals and expected results. The lack of an approved work plan has precluded PAMSD from establishing a medium-term strategic plan, which in OIOS' view poses risks to the Division's effectiveness.

The Organisation should ensure that in future operations similar to the Oil-for Food Programme, work plans are formally approved in order to enable the assessment of performance, facilitate the development of long-term strategic objectives and guide staff in carrying out their work (AF03/22/1/001).

Reorganization of the Division has not been completed

11. Until January 2003, the Division was called the "Programme Management Division". Following a directive issued by the Executive Director, it was renamed the "Programme Analysis, Monitoring and Support Division" to better reflect its revised responsibilities. In order to formalize the new arrangements, on 07 January 2003, PAMSD proposed a new structure which included abolishing its two sections (OAS and OSS) and establishing a project tracking database, which required the addition of two new posts, upgrading one post and using a short-term consultant to develop a database system. However, this proposal has not yet been approved, and PAMSD has essentially been functioning as before. As the new structure, posts and functions have not been approved, no substantial progress has been made relative to establishing a database for monitoring projects and assessing their impact.

Recommendation 2

In future operations similar to the Oil-for-Food Programme, the Organisation should ensure that the structure, functions and posts of all divisions are approved in order to ensure that reporting responsibilities are clear (AF03/22/1/002).

Contingency Planning

- 12. In May 2001, PAMSD prepared a contingency planning discussion paper that set out the possible scenarios and their likely impact on the Programme, and possible actions required at different levels. Since late 2002, PAMSD was involved in some contingency planning in cooperation with the Steering Group on Iraq and started compiling a database of individuals with expertise on Iraq within the UN System. PAMSD has also prepared numerous papers on the changing requirements of the Programme incorporating actions required under various circumstances. In April 2003, PAMSD also prepared a draft of the proposed phase-down of the Programme in the three Northern Governorates, which identified the various possibilities and scenarios under which the Programme may be closed.
- 13. While these proposals identify the problems and likely actions required at each level, they did not contain specific guidelines on the transfer or disposal of assets under the 13 and 2.2 per cent accounts, and an orderly transfer of programme outputs, etc. In OIOS' opinion, irrespective of the outcomes of the Security Council deliberations in relation to the Programme, a detailed "Termination

Plan" needs to be prepared in conjunction with UNOHCI and the implementing UN agencies to ensure an orderly closure of the Programme.

Recommendation 3

OIP in conjunction with UNOHCI and the UN agencies in Iraq should have developed a detailed plan to ensure an orderly exit and closure of the field activities of the Oil-for-Food Programme (AF03/22/1/003).

Lack of formal performance indicators

14. Our discussions with the PAMSD Director and staff revealed that formal performance indicators have not been established to assess how well the division has met its goals and objectives. Hence, there is no objective method of gauging how efficient and effective PASMD has been. The absence of such indicators and the fact that PAMSD's work plans have not been approved preclude a comprehensive evaluation of PAMSD's performance.

Recommendation 4

The Organisation should ensure that formal performance indicators are established in future similar operations to facilitate the measurement of how well specific objectives have been achieved (AF03/22/1/004).

Inadequate coordination between PAMSD, UNOHCI and the Executive Director's Office

- 15. The Director, PAMSD provides policy and management advice and is responsible for the coordination of substantive policies in connection with Programme implementation. He also liaises directly with the HC in Iraq with respect to the implementation of the inter-agency Programme in Iraq.
- 16. However, PAMSD's reporting lines are not appropriate since they do not fully enable PAMSD to implement the Division's advisory and supportive role. Regarding the Programme in the three northern governorates, PAMSD would typically discuss issues with the DHC, who would transmit the agreed position to the HC, who, in turn, would submit them to the Executive Director for a final decision. In OIOS' view, PAMSD should have been empowered to discharge its role as an extended arm of the Executive Director, thereby simplifying the decision process.

In future operations similar to the Oil-for-Food Programme, the Organisation should clearly define and follow reporting lines and the allocation of responsibilities between field offices and headquarters divisions responsible for overseeing field operations (AF03/22/1/005).

Communication needs to be strengthened

- 17. Weekly OIP Management meetings chaired by the Executive Director had been allowed to lapse. As a result, PAMSD has often not been kept fully informed and involved in the issues and developments affecting OIP. During 2000, these weekly meetings were held on a fairly regular basis. However, after the 31 July 2001 meeting, there were no meetings until 6 September 2002. After 1 November 2002, despite the developments in Iraq, no formal meetings were held. In OIOS' opinion, this situation exposes the Executive Director to the risk of not receiving appropriate advice from PAMSD and leads to PAMSD staff feeling "left out" and de-motivated.
- 18. Furthermore, PAMSD files indicated that there was often no reply to written communications and papers PASMD submitted to the Executive Director for consideration. The Division was also frequently required to submit routine issues for the approval of the Executive Director although the Division should have been able to deal with these matters. In this regard, there is no specific delegation of authority to the Division indicating what issues it is authorized to handle.

Recommendation 6 and 7

In future operations similar to the Oil-for-Food Programme, the Organisation should:

- (i) Ensure that mechanisms are in place to provide effective communications between the divisions and the Executive Director by holding regular management meetings (AF03/22/1/006); and
- (ii) Delegate appropriate authority to divisions and clarify what actions they are authorized to take on their own in order to increase transparency in decision-making (AF03/22/1/007).

B. Major policy guidelines have not been finalized

19. As noted previously, PAMSD is responsible for providing direction to Iraq field operations and advising the Executive Director on field policy matters. While the Programme is in its seventh year of operations, major policy directives had not been finalized on a timely basis. As a result, the UN agencies implementing the Programme often followed inconsistent procedures, which increased the risk of inefficient and ineffective programme implementation, leaving the Programme open to

criticism. There had been substantial communication between OIP and UNOHCI and at times with UN agencies on the formulation of such policies. However, in the absence of defined policy, implementation on the ground, at times, went ahead in an uncoordinated manner. In some instances the lack of agreement on policies had significant financial implications.

- 20. Major issues for which policies had not been adequately formulated or implemented are as follows:
 - ➤ OIP has not established a consistent policy on insurance of assets under the Programme, which leaves the UN open to substantial liability and loss. In November 2002, PAMSD wrote to all Agencies asking them for an inventory of key items, major equipment and installations procured or installed under the Programme and for information on their policies with regard to insuring assets. In OIOS' opinion, OIP should have had an inventory of items and equipment since all contracts were approved by the 661 Committee and authenticated by the independent inspection agents. PAMSD stated: "The issue of the insurance of assets procured under the Programme started on 22 November 2000. After consultation, the Insurance Services (OPPBA) did not want to proceed with the issue until OLA had provided an opinion on the ownership of the assets. In October 2001, the dossier was transferred at the request of the Executive Director's office to that office, but returned to PAMSD in November 2002 since very little advance had been made during this period, and the issue was becoming pressing."
 - ➤ OIP did not develop a recommendation for UN agencies to include provisions in their contracts to safeguard the interests of the Programme, should contracts be terminated abruptly. UNOPS had raised the issue of legal and financial liability for their international contracts, when based on a Security Advisory, they had instructed their contractor's staff to leave Iraq before 14 February 2003. Such a policy could serve to limit the liability of the Organization in the event of abrupt termination. OIP commented that "...the UN agencies are wholly responsible vis-à-vis their contractors and use their internal rules and regulations."
 - Despite the limitations imposed by the relevant resolutions governing the Programme, a "common roof" approach was being developed in order not to deplete the local skills capacity, and to increase training and skills of local personnel to implement projects. It was also linked to the question of emoluments of local authorities (LAs) staff being engaged for the Programme. However, no uniform procedures were established resulting in UN agencies (UNDP, UNCHS, UNICEF) implementing divergent procedures, including remuneration paid to personnel, which has financial implications for the Programme. PAMSD commented: "Agencies were encouraged to adapt the common roof approach according to the nature of their individual activities within the various sectors. PAMSD, indeed, tried to solve the issue of harmonizing remuneration."
 - > Procedures for disposing of assets under the 13 and 2.2 per cent accounts were discussed in meetings and reports prepared by OIP. However, no policy guideline has been formalized. In

view of the recent developments in Iraq, the issue assumes all the more importance. In this regard, PAMSD commented that 661 Committee guidelines were available, however, when UNOHCI/OIP submitted their list of equipment that needed to be disposed of, the 661 Committee did not make a decision on this matter.

- Provisions contained in SCR 1284 (1999) enables the Secretary-General, subject to the Security Council's approval, to use escrow account funds for the purchase of locally produced goods. In 2002, UNOHCI presented a detailed proposal on local procurement of wheat, which had the support of the LAs and the Government of Iraq. UNOHCI indicated that savings of approximately \$149 million would result if the Programme purchased local wheat instead of importing wheat. While PAMSD and the Executive Director were in principle supportive of purchasing wheat locally, they believed that the proposal would not be acceptable to the 661 Committee and therefore did not submit a formal proposal to the Committee. In OIOS' opinion, since Security Council resolutions supported the concept of the local procurement of commodities and because this approach was economically prudent, the proposal should have been made to the 661 Committee. Moreover, in UNOHCI's opinion, not addressing the issue would affect the credibility of the Organization. According to PAMSD "An agreement between the GOI and the LAs was never reached, which was a sine qua non, for any submission to the 661 Committee."
- FAO had established a programme to generate funds through the sale of certain items it had procured. Although FAO was the only UN agency to implement such a programme, proposals had also been made by WHO. FAO had receipts of approximately \$21 million in Locally Generated Funds (LGF) of which it had spent about \$14.6 million. OIP had finalized guidelines on managing and utilising locally generated funds, which were circulated to the UN agencies in January 2003. However, these were not formally adopted.
- The development of procedures to manage the ESC (the 13 per cent) account has been under development since late 2001. A draft paper was finalized in January 2003 and submitted to the UN Controller for comment. To date, the paper has not been finalized and shared with the UN agencies and comments have not been received from the Controller. In OIOS' view, this important policy initiative should have been implemented in a timely manner.

Recommendation 8

In future operations, similar to the Oil-for-Food Programme, the Organisation should take appropriate policy decisions in a timely manner to ensure that all UN implementing agencies apply consistent policies in an economic, efficient and effective manner (AF03/22/1/008).

C. Programme administrative issues

21. Major issues impacting the implementation and assessment of the Programme had not been

effectively addressed by OIP. Also, UNOHCI had been given great latitude to make policy decisions, which significantly impacted on PAMSD's role. Some of these issues are discussed below.

Non-fielding of construction capacity mission

22. As a result of an OIOS audit recommendation (AF00/48/4/005), PAMSD had planned a "construction capacity mission" to the three northern governorates as early as the beginning of 2001.. UNOHCI and PAMSD had done considerable work to draft the terms of reference for the mission, identify consultants and establish budget requirements. A proposal submitted to the Executive Director in October 2002 was not approved. OIP had "parked" approximately \$16.5 million for the construction of higher education facilities in phases VII and VIII and had not released them to UNESCO pending a final decision as to which UN agency should undertake construction activities in this sector. Subsequently, OIP released \$9.3 million to UNESCO for small-scale rehabilitation in the higher education sector. In OIOS' opinion, the rationale for a study of the construction capacity in Northern Iraq was valid and should have been undertaken on an urgent basis.

Recommendation 9

In any similar mission in the future that is likely to involve major construction activities, the Organisation should undertake a "construction capacity mission" at the outset and at periodic intervals thereafter as necessary, to ensure that planned implementation goals can be achieved by identifying potential problems and remedial measures. (AF03/22/1/009).

Harmonization of staff benefits in various UN agencies financed by the SCR 986 Programme

22. In a previous audit report, OIOS raised the issue of the provision of different staff entitlements to UN agencies' international and local staff in Northern Iraq. The divergent policies often led to staff movements, particularly amongst national staff, from one agency to another, which had an impact on programme implementation. We were informed that efforts to harmonize staff entitlements would be discussed in the Inter-Agency Administrative Working Group. However, no progress has been made on the issue. It should be noted that, PAMSD had recognized the significance of this issue and suggested that urgent action be taken to address the situation. In OIOS' opinion, the resolution of this entitlements issue should not be left to the field level as it relates to overall programme policy and should be dealt with at the UN agencies' headquarters level.

For any future work involving several UN agencies working under a common programme framework, the Organisation should take action in conjunction with the UN agencies to harmonize the staff benefits of local and international staff financed under the programme (AF03/22/1/010).

Public information support was not adequate

23. PAMSD had sought comments and clarification from UNOHCI on a number of issues raised in local Iraqi media, which might have had implications on Programme implementation, but no responses were obtained. In this context, PAMSD requested the recruitment of an additional Arab speaker at Headquarters within the new Division structure, which was never approved. In OIOS' opinion, an Arabic speaking information officer, located in UNOHCI, should have been recruited to analyse issues, which can negatively impact the Programme. [PAMSD's comment: In our opinion, what was required was an additional Arabic speaker at OIP in addition to a dedicated UNOHCI Public Information Officer mandated to liaise with PAMSD on its information requirements.] This could have assisted OIP in addressing negative criticism appearing in the public media due to the political sensitivity of the Programme.

Recommendation 11

In future operations similar to the Oil-for-Food Programme, the Organisation should ensure that the mission press office in the field acts not only as Spokesman for the Chief of Mission but also as focal point for Public information collection and analysis for the benefit of both field and Headquarters. (AF03/22/1/011).

Inappropriate MOU terms and conditions with UNICEF concerning ownership and transfer of assets

- 24. Although not a responsibility of PAMSD, in order to implement the Programme, OIP concluded MOUs with various UN agencies including UNICEF. The MOU with UNICEF states that, "UNICEF's responsibility for humanitarian supplies procured under the 13 per cent account which are to be distributed to local authorities shall cease upon transfer of such supplies to local authorities. Title to such supplies shall transfer to the local authorities upon distribution to such authorities". OIP does not have a similar provision in the MOUs with other UN agencies. Moreover, it is OIP's policy that the title of supplies, and other materials purchased from the 13 per cent account will remain with the UN until decided otherwise by the SC.
- 25. The MOU with UNICEF contravenes this policy and hence its legality is questionable. The Director PAMSD stated that he was not aware why such a provision was included in the UNICEF MOU since all matters pertaining to MOUs were handled by the Executive Director's Office. To date, UNICEF has transferred the title of goods worth \$99 million to the LAs.

If considered appropriate under current conditions, OIP should amend the MOU with UNICEF to make it consistent with OIP's overall assets ownership policy for goods procured under the Programme and seek OLA's advice as appropriate (AF03/22/1/012).

V. ACKNOWLEDGEMENT

26. We wish to express our appreciation for the assistance and cooperation extended to the auditors by PAMSD during the conduct of this audit.

Esther Stern, Director Internal Audit Division, OIOS